Oregon DOT
Treasure Valley Reload Center
Tioga Group Review of Response to OTC Information Request
07/17/19

Overview

Tioga reviewed the items submitted on 7/12/19 in response to OTC's request for additional information of 6/21/19. We focused our review on the cost/rate and service information submitted, including the following obtained by MCDC:

- Motor carrier rates from a national trucking firm. MCDC reports that this company frequently hauls onions for local producers.
- Rail rates for Cold Connect service to Rotterdam Junction, NY
- UP Tariff 1195, which has onion rates from eastern Oregon to major U.S. destinations including Chicago and New York City (Hunts Point).
- Fifteen confidential completed shipper surveys.

Overall, MCDC appears to have supplied the key information requested in the OTC letter. Not every blank is filled in and some items are still estimated, but the additional information suggests that the proposed service is different from what is currently offered, will be of value to Treasure Valley shippers, and has a reasonable chance of operational and economic viability.

Tioga's review focused on the transportation aspects of the proposal, and did not address the economic viability of the cold storage and consolidation facility itself.

Tioga has not independently verified the information provided by MCDC.

Service Comparison

The TVRC facility will provide a unique service offering to the shippers in the Treasure Valley, most easily seen in the transit time to Hunt’s Point in New York City.

- Trucking service is typically fifth morning.
- Cold Connect service from Wallula is 7 days to Rotterdam Junction (Albany) and then another day to New York City - 8 days total.
- Existing UP service from Treasure Valley is estimated at 10-14 days, when cars and switching are available.
- TVRC manifest service is estimated at 10-14 days.

Cost Comparison

As Tioga interprets the MCDC submission:

- Existing trucking rates for onions were obtained from a leading motor carrier.

- Cold Connect rail service for onions rom Wallula is estimated at about $1.00 per bag less than the trucking cost. Local and destination trucking costs would be added to produce a delivered price near the truck rate. Pricing information was provided as a base rate on a per-bag basis, which may mean that a full carload is not required to obtain the rate.
- UP manifest service from Treasure Valley customer sidings would cost about $2.50 per bag less than the Cold Connect service
- UP manifest service from the TVRC facility is estimated at about $2.00 per bag less than the Cold Connect service. This cost includes:
    - UP rate for private cars at a discount from the base rate.
    - Rail car lease cost.
    - Rail car diesel fuel expense.
    - "Touch Cost" (assumed to be handling cost at the TVRC facility).
    - Estimated surcharge (covers the MCDC expenses of the operation)

Because the cost is higher than that available from a customer siding, the key aspects of the value proposition are:

- The availability of rail cars, which are known to be in short supply.
- The availability of rail loading facilities for customers that do not have their own sidings.
- Ability to consolidate less-than-carload lots.

Costing Comments

A cost estimate was provided for leasing rail cars. No details of the proposal are included. The manner in which the cost estimate was used in the proposal implies that it is a full service lease, and that MCDC would not experience any costs over and above the lease rate. If this is not the case those costs should be included in this analysis.

Tioga notes that the original project proposal used a rail car capacity of 1600 cwt, i.e. 3200 bags per rail car, whereas the current estimate is based on 1800 cwt or 3600 bags per car.

An apples-to-apples cost comparison would include the shipper's cost of trucking to the TVRC facility versus trucking to Cold Connect Tioga notes that the estimated UP rail rate for private cars was used in the shipper interviews, which led the shippers to do their own trade-off for the volume estimate.

Similarly, a more detailed analysis should also consider the cost avoided by shippers in loading rail cars at their private sidings.

UP would probably give better service and ultimately discount pricing to TVRC because the facility will consolidate outbound loads for UP and reduce their local service costs.

The operation would require 150-200 rail cars with an annual fixed cost commitment.

The facility would generate "touch" fees to cover the terminal operation, and surcharges to support MCDC management of the operation. The new total appears somewhat greater than in the original forecast, as may be appropriate for the additional management costs associated with "owning" rail cars.

Market, Volume Estimate, and Customer Comments

The customer interviews provided valuable data on the willingness to move onions at the projected TVRC rate per 50 lb. bag, and identified an eligible potential total of 2000+ rail cars moving annually, mainly to destinations east of Chicago. This total is greater than the original project proposal, which forecast 1853 cars annually at full build-out.

The surcharge calculation indicated that the volume used in the financial forecast for the operation was approximately two thirds of the annual total. Note that the original proposal forecast identified a demand peaking pattern that would be hard to serve with an efficiently sized rail car fleet. That may be one reason for this constraint.

The design parameters of the facility may need to be reexamined. Because MCDC is providing rail cars and because the business is seasonal, the size of the TVRC rail yard should be reexamined and possibly expanded to permit on-site storage of unused cars during non-peak periods.

Original Submission Requirements

While the material provided certainly addresses the commission's latest specific questions, it does not address all the original requirements of the project submission. Those requirements included:

- **An accounting of shipper benefits.** Under full utilization the original plan called for a moderate estimated total private transportation cost savings per year. The current plan estimates private transportation cost savings approximately five times greater. This finding is probably the reason for the very strong shipper support. These transportation benefits are unlocked by providing rail cars. The transportation savings are generated by the difference between the truck rates, the Cold Connection rates, and the expected TVRC rates. Both tariffs provide real, current rates. The large per-car or per-bag savings estimate may not translate directly into shipper savings, as it may be offset by handling ("touch") fees, facility costs, and other factors. These benefits may also be reduced to some degree by competitive reaction from truckers (i.e. lower rates). The motor carriers will seek to keep the business they want.
- **An accounting of public return on investment.** Given the new volume and operational assumptions, the public return on investment will have changed and should be reanalyzed. The direct shipper savings are private benefits, and may or may not translate into public benefits. There will be a trade-off between lost jobs for truck drivers and industry workers associated with individual shippers, versus the labor required in the new, efficient consolidated operation. There will be extra highway miles for moves between producers and the facility, balanced by reduction in long haul and regional highway miles spent moving cargo to Wallula.
- **An accounting of the** "*Treasure Valley Reload Center FORECASTED RECEIPTS & DISBURSEMENTS and FORECASTED CASH FLOWS For the First Five Years of Operations.*"
- **An accounting of the** *"Anticipated Annual Revenue from Operations of Facility."*

These submissions should be revised as the project is now substantially different than the project proposed last fall. Except for a reduction in labor due to the increasing efficiency of the operation, Tioga anticipates they will all show positive results.

Other Issues

The TVRC proposal is actually two projects in one:

- Development of a rail-served cold storage facility at Nyssa; and
- Acquisition/lease of a refrigerated railcar fleet to obtain an additional rail shipment option for Treasure Valley producers.

Economic feasibility of the cold storage facility is an economic development issue and was not addressed by Tioga.

It is conceivable that acquisition of the refrigerated railcar fleet could enable MCDC (or alternatively a shipper's association or cooperative) to arrange the rail service from existing sidings or other cold storage facilities, without constructing a new cold storage facility at Nyssa. Tioga has not analyzed this alternative.

Oregon DOT
Mid-Willamette Valley Intermodal Center
Tioga Group Review of Response to OTC Information Request
07/17/19

Overview

Tioga reviewed the items submitted on 7/12/19 in response to OTC's request of 6/21/19:

Tioga focused our review on the cost and price information submitted in response to OTC's request of 6/21/19.

- LEDG has obtained shipper quotes of actual Willamette Valley–Portland drayage rates.
- It does not appear that LEDG has sought actual rail rates from UP; the rail rates presented are estimates.
- The drayage rates to and from Millersburg are also estimates.

Based on Tioga's understanding of the LEDG cost and pricing structure, LEDG will not be able to offer a significantly lower rate combination than shippers are already paying, especially if drayage firms lower their rates to compete.

Service

The basic MWVIC/NWCS/UP service concept is unchanged.

The schedules in the submission have not been verified in discussions with UP.

Available shipper responses suggest that the proposed schedules will be suitable for at least some current traffic.

Drayage Rates

LEDG obtained examples of roundtrip drayage rates to Portland from five shippers. One shipper appears to be a broker working from an office location rather than an actual shipping point. The other four shippers are all 80–90 miles from NWCS at Portland and 6–16 miles from the Millersburg site. Their average Portland drayage quotes are comparable to the estimates obtained by OPW for Portland drayage from Brooks.

The MWVIC submission also provided estimates of roundtrip drayage rates to the Millersburg site for year 1 and year 2. However, Tioga notes that these are just estimates and there appear to be some discrepancies between estimates from different sections of the submitted materials. These figures, however, are all still estimates, not actual quotes or rates being paid.

Rail Cost and Pricing

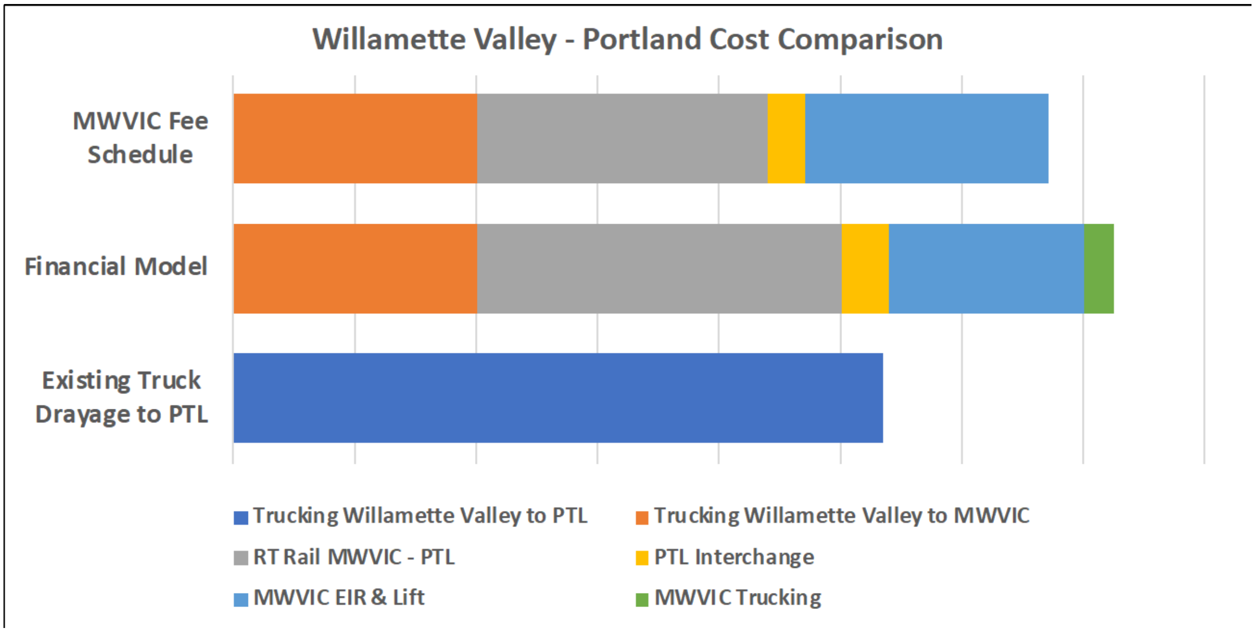
The Millersburg submission included two different figures for rail costs. These costs appear to be estimates and do not appear to reflect actual validation with UP. Since Millersburg will be using UP manifest service from Millersburg to Portland, the actual UP manifest rates will be critical for financial viability.

MWVIC Costs and Fees

The MWVIC submission contains two differing compilations of costs and fees. These figures do not have detailed documentation and are somewhat difficult to interpret.

The MWVIC Fee Schedule figures are displayed below as Tioga understands them (Exhibit 1). The round trip total is well above the average competing drayage rate, and beyond the quoted drayage rate range.

Exhibit 1: MWVIC Costs/Rates from Fee Schedule



Based on Tioga's interpretation of the estimates and quotes provided in the LEDG submission, the combined intermodal and drayage costs would be higher than competing truck-only rates between the Willamette Valley and Portland. The MWVIC facility and service would therefore be unlikely to attract significant business. Fundamentally, the proposed MWVIC service cannot compete with trucking over the short distance involved.

Tioga notes that small changes to the estimates (e.g. correction of any double counting in terminal costs) to meet or barely undercut truck rates would not be sufficient to establish competitiveness. The MVIC service would be at least a day slower than trucking and would not operate every day, so customers would expect to pay significantly less. Moreover, drayage firms will reduce their existing rates to retain the business wherever possible.

Reuse of Empty Containers

The LEDG submission references reuse of empty containers for export loads in several places, and indicates a lower cost/rate for northbound moves that reuse empties. Tioga considers this option to be extremely limited for the following reasons:

- Availability of empty import containers at MWVIC presumes that the MVIC service can successfully compete with truck drayage for the southbound import load. The figures provided in the LEDG submission do not support this presumption.
- Reusing import containers for export loads is far more difficult and far less common than observers outside the industry expect. Unless the MWVIC facility is designated as an inland container depot by the ocean carriers, the container must be returned to the ocean carrier within the allowed free time to avoid demurrage charges. There is no indication that ocean carriers will allow use of MWVIC as a depot (unlike the NWCS facility in Portland, which operates successfully as a depot).
- Containers are not interchangeable, despite their physical standardization. Containers differ by size, type, and specification, and by ownership. Ocean carriers do not interchange containers between lines.

Shipper Verification

The LEDG submission contains verification letters from five grass seed shippers. These letters establish:

- The general suitability of proposed MWVIC schedules.
- The range of existing competing drayage rates to/from Portland.
- The range of current overall costs between the Willamette Valley and Portland.

These letters do not, however, verify the competitiveness of MWVIC rates. The rates given in the letters for comparison were:

- From Millersburg itself, moving empty south and loaded north.
- A lower amount for a loaded northbound move starting with an empty container in Millersburg.

The rate for empty south/loaded north corresponds to the "onsite at MWVIC" rate in the MWVIC Fee Schedule, and does not include drayage to/from the customer's site. That estimate is not comparable to the door-to-NWCS truck rates quoted.

Tioga found that some of the information provided needs further explanation. For example, the document counts revenue for lifts for both domestic and international volume, but appears to count rail cost for only international containers. Tioga did not find any allocation of capital cost for lift machines, yard tractors, or street tractors within any of the spreadsheets. Tioga found fuel and maintenance type costs allocated for trucks, but not for the more expensive lift machines.

Other Issues

The LEDG submission also discusses other revenue sources, economic development issues, property conveyance, construction, and other issues. Tioga's analysis focused on the commercial feasibility of the core intermodal service and did not address these other subjects.

Oregon DOT
Oregon Port of Willamette
Tioga Group Review of Response to OTC Information Request
07/17/19

Overview

Tioga reviewed the OPW (Brooks) submission of July 12, 2019 in response to OTC's information request of June 21, 2019. Our review focused on the issues raised in OTC's request of June 21, 2019, namely the details and costs of the proposed OPW rail intermodal service versus the existing truck/rail services via Portland.

- OPW has clearly made progress in some areas, notably in obtaining schedule information from UP and in ascertaining competing drayage rates.
- Other areas are still incomplete, notably the institutional relationships between P&W, UP, and BNSF needed to implement the proposed service.
- The rail costs are still estimates. OPW has not obtained actual rate quotes from P&W, UP, or BNSF. Some drayage fees are also estimates, and other cost factors are not sourced.
- Rates and costs are presented in several parts of the OPW submission and do not always agree.
- Tioga believes that the rate and fee combinations presented by OPW do not provide a true apples-to-apples comparison between OPW's service and the competitive BNSF or NWCS alternatives.
- As reconfigured by Tioga, OPW's costs/rates would be higher than competing options.

OPW is proposing to compete with NWCS and BNSF services that are subsidized by the ocean carriers. Based on Tioga's understanding of the OPW cost and pricing structure, OPW will not be able to offer a lower rate combination than shippers are already paying, especially if drayage firms lower their rates to compete.

Service

The proposed OPW service continues to evolve. The July 12, 2019 submission describes the service as a P&W train to/from Brooks connecting with UP at Albina Yard in Portland. UP will move Brooks cars to either:

- Fife Yard in Tacoma, for interchange with Tacoma Rail; or
- Argo Yard in Seattle, for truck drayage to/from Port of Seattle terminals.

Some aspects of the proposed service are still undocumented. The trackage rights and waiver/compensation issues raised in April 2019 may or may not have been addressed. From the April 2, 2019 PNWR responses:

> *"PNWR does not have current agreements in place to interchange freight traffic with UP from the Brooks location, based on the agreements created between PNWR and the predecessor railroad to BNSF when the OE Line was transferred to PNWR. In order for PNWR to interchange traffic from Brooks with UP, the following would have to happen:*
>
> *BNSF would need to provide PNWR with a waiver for traffic to route to UP. This would likely involve extended negotiations between PNWR and BNSF and would likely require financial compensation to BNSF.*
>
> *PNWR and UP would have to agree to an interchange point. There is the physical ability to connect from the PNWR OE line up to UP utilizing three other intermediate PNWR lines to UP Albina (Portland, OR) yard. As referenced above, such a routing would require BNSF concurrence."*

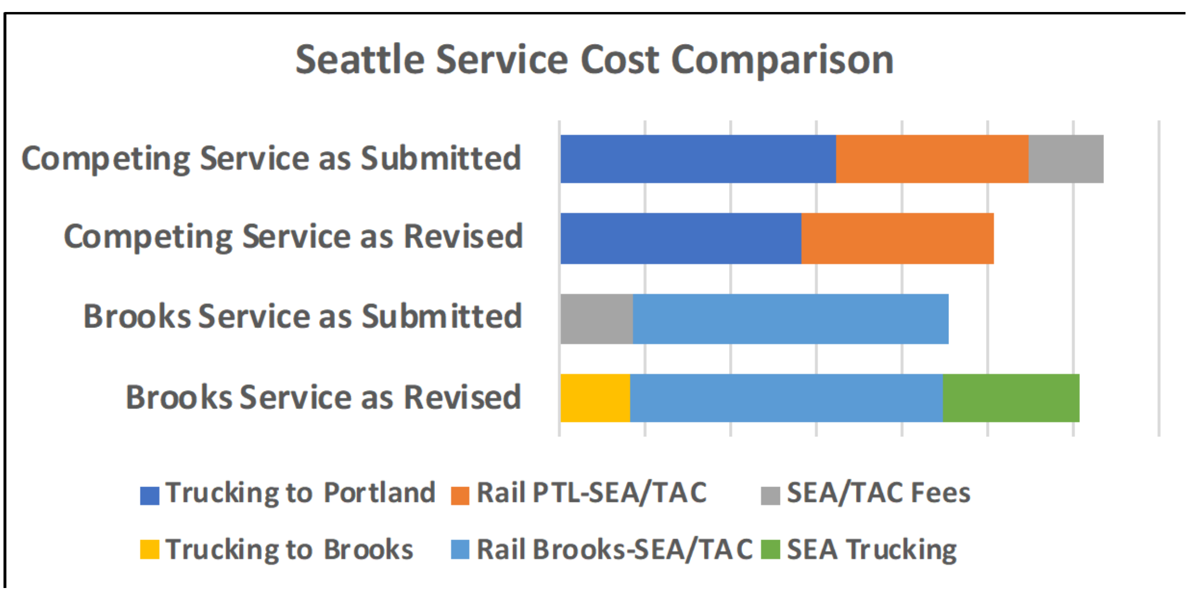
OPW reports that the UP has provided a schedule based on Albina Yard as the interchange point, with the PNWR delivering the cars using the Labish connection. The recent OPW submission does not directly address the issue of the BNSF waiver or concurrence. The status of this issue is thus still unclear.

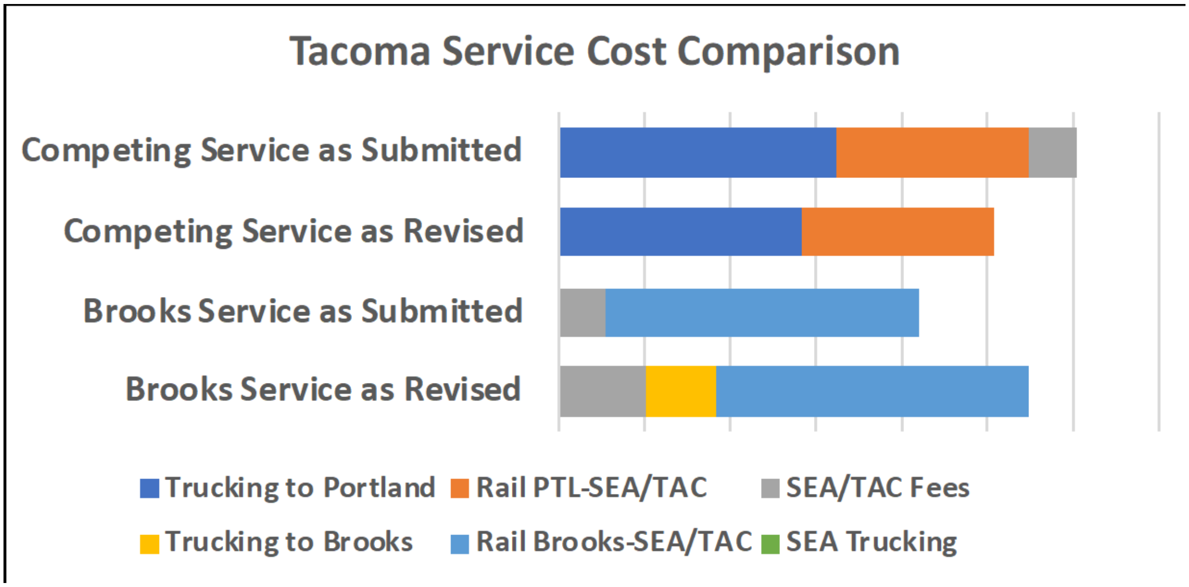
Brooks Costs and Rates

OPW's costs and rates are provided in their submission. Those costs and rates still include several estimates, and some of the estimates are undocumented.

Exhibit 1 presents Tioga's understanding of the costs as presented in OPW's submission.

Exhibit 1: OPW Costs/Rates from Submission and as Revised





Tioga prepared a set of revised estimates based on what we believe to be a more complete and consistent "apples-to-apples" comparison.

Exhibit 1 shows the revised cost/rate estimates next to the OPW amounts. The OPW submission correctly notes that the Brooks rate will have to be significantly *lower* than the least expensive alternative to attract significant business.

The revised figures in Exhibit 1 indicate that the OPW service cannot compete with the existing low-cost option if all costs are included. The NWCS and BNSF services are priced below cost because ocean carriers offer those services in lieu of vessel calls at Portland. If the OPW figures and Tioga's interpretation are correct, OPW will not be able to attract significant business in competition with the the existing subsidized alternatives.

Small changes to the estimates to meet or barely undercut truck rates would not be sufficient to establish competitiveness. The OPW service would be at least a day slower than trucking, so customers would expect to pay significantly less. Moreover, drayage firms will reduce their existing rates to retain the business wherever possible.

Other Issues

The OPW submission also discusses congestion, emissions, potential domestic service, and other issues. Tioga's analysis focused on the commercial feasibility of the core intermodal service and did not address these other subjects.